

Message Text

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ACTION EUR-12

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PASS TREASURY AND FRB

EO 11652: N/A
TAGS: EFIN ECON SZ
SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK DEC 12 - 18

1. SUMMARY: FOREIGN EXCHANGE MARKET NERVOUS. GOLD PRICE DECLINED TO 132. CAPITAL MARKET HIGHLY LIQUID. SF 1.8 BILLION IN PUBLIC BORROWINGS APPROVED FOR FIRST QUARTER 1977. SNB PERMITTING OIL-PRODUCING COUNTRIES BUY SWISS FRANC NOTES. EDITORIAL CALLED ON NEW US ADMINISTRATION CONSIDER RETURN TO FIXED EXCHANGE RATE SYSTEM WHILE SWISS NATIONAL BANK VICE PRESIDENT SAID THAT FLOATING SYSTEM HAS ENABLED SNB CONTROL INFLATION. SWISS ECONOMY EXPECTED TO SHOW NO GROWTH FOR FORESEEABLE UNCLASSIFIED

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FUTURE. NOVEMBER FOREIGN TRADE SURPLUS SF 241.2 MILLION. GOVERNMENT SALARIES WILL NOT RISE IN 1977. END SUMMARY.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET NERVOUS AWAITING DEVELOPMENTS IN UK AND OUTCOME OF OPEC MEETING. DOLLAR WAS UNDER UPWARD PRESSURE BUT WEAKENED BRIEFLY THURSDAY WHEN BUYERS SWITZHERD TO DM. SWISS

NATIONAL BANK INTERVENED TO PREVENT SWISS FRANC APPRECIATION. GOLD PRICE DECLINED TO 132. RATES FOLLOW

ITEM - 12/12(OPEN) - 19/19(CLOSE)

SPOT DOLLAR - 2.4505 - 2.4518
FORWARD DISCOUNT (PCT P.A.)

ONE MONTH - 3.52 - 3.57
TWO MONTHS - 3.13 - 3.23
THREE MONTHS - 2.98 - 2.97
SIX MONTHS - 2.85 - 3.22
12 MONTHS - 2.78 - 2.81
SF/DM - 102.33 - 102.66
GOLD - 136.00 - 132.5

3. CAPITAL AND MONEY MARKETS: ALL MONEY RATE REMAINED 0.25 PERCENT. STOCK PRICES DECLINED SLIGHTLY; SKA INDEX (1959 EQUALS 100) SLIPPED TO 211.3 DECEMBER 17. AVERAGE YIELD CONFEDERATION BONDS UP TO 4.46 FROM 4.44. SNB IS EXTENDING UNLIMITED SWAP ARRANGEMENTS TO BANKS FOR YEAR-END REQUIREMENTS. SNB HOLDINGS FOREIGN EXCHANGE ROSE SF 1,240 MILLION TO SF 16,983 MILLION AND ROOSA BONDS DECLINED SF 45 MILLION TO SF 5,268 MILLION FOR WEEK ENDING DEC 15. LOAN ISSUES COMMISSION HAS APPROVED 41 LOANS FOR SF 1.8 BILLION IN FIRST QUARTER 1977, COMPARED TO 33 PUBLIC BORROWINGS FOR SF 1.6
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BILLION FOURTH QUARTER 1976 AND 49 LOANS FOR SF 2.9 BILLION FIRST QUARTER 1976. FIRST QUARTER 1977 BORROWINGS INCLUDE CONFEDERATION LOAN SF 500 MILLION; CONFEDERATION BORROWED SF 1.3 BILLION FIRST QUARTER 1976.

4. PETRO-FUNDS: SWISS NATIONAL BANK MADE PUBLIC ITS RELAXATION OF POLICY RESTRICTING INVESTMENTS IN SWISS FRANCS AS INTERNATIONAL RESERVE CURRENCY BY PROHIBITING SALES OF SWISS FRANC NOTES TO FOREIGN GOVERNMENTS, CENTRAL BANKS OR MONETARY AUTHORITIES. SNB IS PERMITTING CERTAIN INTERNATIONAL ASSISTANCE ORGANIZATIONS, ESPECIALLY WORLD BANK, ASIAN DEVELOPMENT BANK AND INTER-AMERICAN DEVELOPMENT BANK, TO ISSUE MEDIUM-TERM NOTES IN SWITZERLAND TO MONETARY AUTHORITIES OF OIL-EXPORTING COUNTRIES. THESE BUYERS MUST OBTAIN THEIR SWISS FRANCS FROM SNB WHICH THEN TRANSFERS FOREIGN EXCHANGE THUS ACQUIRED TO THE ISSUING INSTITUTION WHEN LATTER TRANSFERS PROCEEDS OF ITS NOTE ISSUE OUT OF SWITZERLAND UNDER SNB CAPITAL EXPORT CONVERSION RULE. SNB HOPES THAT THIS PRACTICE WILL HELP LIMIT SHORT-TERM EXCHANGE RATE SWINGS BY GIVING IT MORE CONTROL OVER MARKET.

5. FLOATING EXCHANGE RATES: AGENCY ECONOMIQUE ET FINANCIERE

EDITORIAL SPECULATED WHETHER NEW US ADMINISTRATION WOULD ADVOCATE RETURN TO FIXED EXCHANGE RATES. NOTING SLOWED ECONOMIC RECOVERY, DIVISION OF WESTERN COUNTRIES INTO TWO BLOCS OF WEAK AND STRONG CURRENCIES, AND QUESTION OF FOREIGN DEBT MORATORIUM FOR NON-OIL PRODUCING LDC'S, EDITORIAL CALLED FOR EXCHANGE SYSTEM TAKING MORE ACCOUNT OF BALANCE OF PAYMENTS POSITIONS OF LARGE ECONOMIC ZONES RAHTER THAN OF DOLLAR PREDOMINANCE. EDITORIAL STATED THAT IT WOULD BE DISASTROUS FOR WORLD ECONOMIC RECOVERY, ESPECIALLY FOR EUORPE, IF NEW ADMINISTRATION MADE SAME ERROR AND FOLLOWED SAME POLICY AS ITS PREDECESSOR WHICH, SUPPORTED BY WEST GERMANY, ADVOCATED FLOATING RATES.

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6. SNB VIEWS: SWISS NATIONAL BANK VICE PRES SCHUERMANN STATED THAT FLOATING EXCHANGE RATE SYSTEM HAS ENABLED SNB EFFECTIVELY CONTROL MONEY SUPPLY AND CONSEQUENTLY KEEP INFLATION DOWN. SCHUERMANN SAID THAT CONFEDERATION WOULD BORROW SF 1.5 BILLION TO SF 2 BILLION ON DOMESTIC CAPITAL MARKET IN 1977 COMPARED TO SF 2.63 BILLION BORROWED IN 1976, BUT HE BELIEVED MARKET LIQUID ENOUGH TO PERMIT GOVT FINANCE DEFICIT SPENDING. HE ADDED THAT EFFORTS MUST BE MADE TO PREVENT FURTHER RISE IN DEDERAL SPENDING AND TO BALANCE FEDERAL ACCOUNTS FOR FEW YEARS TO AVOID INFLATIONARY PRESSURES AND RISE IN INTEREST RATES THAT COULD PUSH SWISS FRANC EXCHANGE RATE HIGHER.

ECONOMIC

7. ECONOMIC FORECAST: SWISS ECONOMIC AFFAIRS COMMISSION REPORTED THAT GRADUAL ECONOMIC RECOVERY OF FIRST HALF 1976 HAS RUN OUT OF STEAM IN RECENT MONTHS. THOUGH COMPETITIVENESS OF SWISS PRODUCTS APPEARS IMPROVING ON BOTH FOREIGN AND DOMESTIC MARKETS, INDUSTRIALISTS EXPECT THEIR ORDER-BOOKS TO REGISTER SHORT-TERM DECLINE BECAUSE OF PRESENT SLOWDOWN IN INTERNATIONAL ECONOMIC ACTIVITY. THIS TREND EXPECTED TO CAUSE REDUCED PRODUCTION AND LOWER PURCHASES OF MATERIALS AS COMPANIES MAKE GREATER EFFORTS TO IMPROVE LIQUIDITY AND PROFITS. THE COMMISSION FORECASTS THAT STAGNATION WILL PROBABLY BE DOMINANT FEATURE OF ENTIRE ECONOMY IN FORESEEABLE FUTURE. UNEMPLOYMENT IS EXPECTED TO RISE AGAIN IN WINTER. SLUGGISH BUSINESS ACTIVITY EXPECTED TO CONTINUE AS LONG AS THERE IS NO OVERALL INCREASE IN CAPITAL SPENDING.

8. FOREIGN TRADE: SWISS CUSTOMS REPORTED FOREIGN TRADE CONTINUED TO GROW DURING NOV FOR NET TRADE SURPLUS SF 241.2 MILLION COMPARED SF 474.3 MILLION SURPLUS NOV
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1975. FOLLOWING SHOWS NOMINAL VALUE TRADE AND PERCENT
CHANGE FROM OCT, PRICE CHANGE AND REAL CHANGE FOREIGN TRADE
NOV 1976 AND 1975:

NOV	IMPORTS	EXPORTS		
(MILLIONS SF)	1976	1975	1976	1975
VALUE	3,346	2,562	3,588	3,007
PCT CHANGE	30.6	-23.8	19.3	-5.0
PRICE CHANGE	1.2	-8.2	0.7	-2.3
REAL CHANGE	32.2	-17.0	18.5	-2.8

FIRST 11 MONTHS 1976 TRADE SURPLUS SF 307.6 MILLION COMPARED
SF 1,975.6 MILLION DEFICIT SAME PERIOD 1975 AS FOLDS:

11 MONTHS	IMPORTS	EXPORTS		
(MILLIONS SF)	1976	1975	1976	1975
VALUE	33,338	31,431	33,646	30,356
PCT CHANGE	6.1	-21.0	10.8	-6.6
PRICE CHANGE	-5.5	-3.3	0.6	3.1
REAL CHANGE	12.2	-18.2	11.5	-9.3

9. GOVT SALARIES: FEDERAL COUNCIL HAS DECIDED TO KEEP
GOVT EMPLOYEES SALARIES IN 1977 AT SAME LEVEL AS 1976 BECAUSE
OF LOW INFLATION RATE. LAW REQUIRES ADJUSTMENT JAN 1 TO
MATCH INCREASE IN CONSUMER PRICE INDEX WHICH IS EXPECTED
TO BE ONLY 0.4 PCT ABOVE 166.2 LEVEL OF JAN 1976. FIRST TIME
SINCE 1960 THAT GOVT SALARIES HAVE NOT RISEN. OFFICIALS
ESTIMATE SF 12 MILLION SAVINGS FOR 1977 BUDGET.

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